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Economic Briefing

US labor market trumped expectations

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In the US, employment rose by 256,000 in December, significantly more than expected and more than in November although special factors had inflated the increase in jobs in the previous month. In addition, unemployment fell. The Federal Reserve is likely to lower interest rates more slowly than before.

The data ...

Non-farm payrolls rose by 256K in December, well above expectations (consensus 160K, Commerzbank 150K). The unemployment rate fell from 4.2% to 4.1%. Average hourly earnings rose by 0.3% from the previous month. In year-on-year terms, wages rose by 3.9% after 4.0% in November.

... and the background

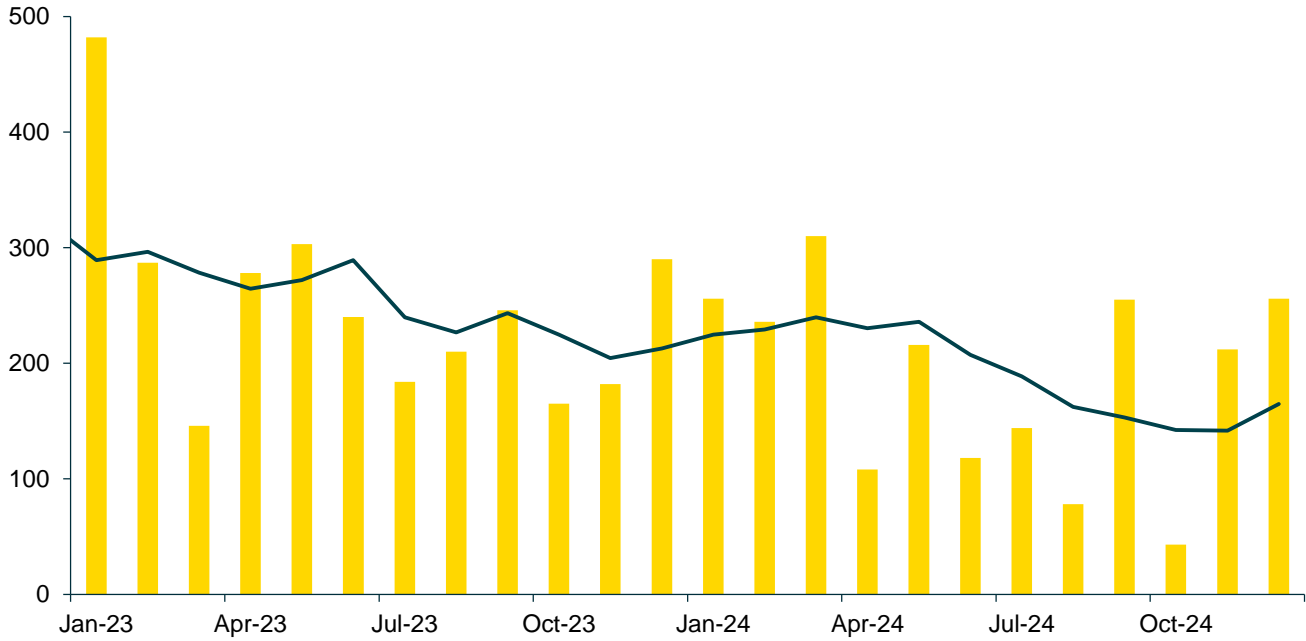
The US labor market showed a surprisingly strong performance in December. The 256k increase in jobs was the largest since March. Even more jobs were created than in November (212k), although the end of strikes and the return of employees to their workplaces after the hurricanes pushed up the November increase.

While one month's data should not be overstated and the numbers could still be revised, there is little sign of a downward trend in job growth in recent months (Chart 1). At the same time, the other details of the report were also favorable. The rise in jobs is quite broad-based, with the exception of manufacturing. The volume of labor (total hours worked) rose by 0.2%, with the previously reported dip in October being revised away. The unemployment rate surprised with a slight drop, even though more people entered the labor market. Broader measures of underemployment fell even more sharply.



Chart 1 - Have payroll gains accelerated again?

nonfarm payrolls, month-on-month change in thousands. Line: six-month moving average



Source: BLS, S&P Global, Commerzbank Research

The Fed about to pause rate cutting?

The labor market remains robust, with employment data not confirming the further gradual cooling that is emerging in some other indicators. There is thus no pressure for further rapid rate cuts by the Fed. The Fed had cut key rates in each of the last three meetings, by a total of 100 basis points. A slower pace is emerging for 2025 (the next Fed meeting is scheduled for January 28-29). According to their December updated projections, the Fed's top brass only see another 50 basis points of further cuts, i.e. two steps of 25 basis points each. And these cuts are subject to the data flow - after all, the inflation rate remains stubbornly above the 2% threshold. The possible price-driving measures of the future US government, such as tariff increases, are another factor adding to the uncertainty.

Table 1 - US employment report

	Dec-24	Consensus	Nov-24	Oct-24	Sep-24	six month average
Nonfarm payrolls	256	160	212	43	255	165
Unemployment rate	4.1	4.2	4.2	4.1	4.1	4.2

Source: BLS, Bloomberg, S&P Global, Commerzbank Research



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